



STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Financial Statements

June 30, 2001 and 2000

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Table of Contents

	Page
Independent Auditors' Report	1-2
Balance Sheet	3
Statement Revenues, Expenses and Changes in Retained Earnings	4
Statement of Cash Flows	5
Notes to Financial Statements	6-18



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Independent Auditors' Report

State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska:

We have audited the accompanying balance sheets of the State of Alaska International Airport System (An Enterprise Fund of the State of Alaska) (System) as of June 30, 2001 and 2000 and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the State of Alaska International Airport System Enterprise Fund and are not intended to present fairly the financial position of the State of Alaska and the results of its operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Alaska International Airport System (An Enterprise Fund of the State of Alaska) as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.



State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2001 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

KPMG LLP

October 5, 2001

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Balance Sheets

June 30, 2001 and 2000

Assets	2001	2000
Cash in banks and State Treasury (note 4)	\$ 15,447,988	13,822,724
Investments (note 4)	85,334,654	72,940,216
Accounts receivable, less allowance for doubtful accounts	9,522,476	6,093,911
Federal grants receivable	627,104	1,747,854
Accrued interest receivable	184,267	268,817
Total current assets	<u>111,116,489</u>	<u>94,873,522</u>
Restricted assets and investments (note 5):		
Repair and replacement account	500,000	500,000
Terminal redevelopment fund	143,385,503	169,288,760
Passenger facility charges:		
Cash	2,752,347	—
Due from General Fund	103,585	—
Accounts receivable	909,579	—
Revenue bond redemption fund:		
Bond interest	1,996,816	1,032,145
Bond principal	3,660,000	1,135,000
	<u>153,307,830</u>	<u>171,955,905</u>
Property and equipment, net of accumulated depreciation (notes 6 and 9)	<u>419,828,310</u>	<u>380,512,882</u>
Total assets	<u>\$ 684,252,629</u>	<u>647,342,309</u>
Liabilities and Fund Equity		
Accounts payable	\$ 1,530,825	1,195,456
Unearned revenue	3,253,981	2,343,589
Due to State of Alaska General Fund	12,337,067	19,965,304
Total liabilities payable from restricted assets:		
Accrued interest	3,199,733	3,063,898
Revenue bonds (note 7)	3,660,000	1,135,000
Total current liabilities	<u>23,981,606</u>	<u>27,703,247</u>
Revenue bonds payable, less current portion (note 7)	<u>223,315,743</u>	<u>226,640,786</u>
Total liabilities	<u>247,297,349</u>	<u>254,344,033</u>
Fund equity:		
Contributions, less accumulated amortization of \$109,735,922 and \$102,653,451 in 2001 and 2000 respectively (note 8)	114,415,077	121,497,548
Retained earnings:		
Reserves:		
Terminal redevelopment reserve	1,794,049	6,348,656
Repair and replacement reserve	500,000	500,000
Passenger facility charges	3,765,511	—
Unreserved	316,480,643	264,652,072
Total fund equity	<u>436,955,280</u>	<u>392,998,276</u>
Total liabilities and fund equity	<u>\$ 684,252,629</u>	<u>647,342,309</u>

See accompanying notes to financial statements.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Statements of Revenues, Expenses and Changes in Retained Earnings
Years Ended June 30, 2001 and 2000

	2001	2000
Operating revenues:		
Airfield operations	\$ 44,746,184	33,017,726
Concession fees	8,484,722	8,400,382
Terminal rents (note 11)	8,318,032	7,530,993
Vehicle parking fees	5,304,174	4,731,483
Passenger Facility Charge (note 13)	3,809,502	—
Land rental fees	2,948,292	2,788,428
Other	310,879	247,574
	<u>73,921,785</u>	<u>56,716,586</u>
Operating expenses (note 9):		
Building maintenance	11,850,165	10,999,904
Field and equipment maintenance	11,066,513	10,235,078
Safety	7,681,975	7,643,984
Administration	6,690,964	6,470,620
Operations	2,561,884	2,010,820
Environmental expenses	2,176,285	2,465,073
Vehicle parking and curbside services	2,050,083	1,864,489
Risk management	720,144	719,688
Bad debt	—	62,820
	<u>44,798,013</u>	<u>42,472,476</u>
Operating income before depreciation and amortization expense	29,123,772	14,244,110
Depreciation and amortization expense:		
On assets acquired with International Airport revenue funds	12,591,014	11,927,959
On assets acquired with capital grants (note 8)	7,082,471	6,566,669
	<u>19,673,485</u>	<u>18,494,628</u>
Income (loss) from operations	<u>9,450,287</u>	<u>(4,250,518)</u>
Nonoperating revenue (expense):		
Investment income	8,242,848	4,427,079
Interest expense	(1,759,990)	(1,554,605)
Reimbursable services income	1,743,696	—
Reimbursable services expenses	(1,743,696)	—
Total nonoperating revenue (expense)	<u>6,482,858</u>	<u>2,872,474</u>
Capital contributions – Corporate (note 14)	16,000,000	—
Capital contributions – Federal Aviation Administration (note 8)	12,023,859	—
Net income (loss)	43,957,004	(1,378,044)
Transfer of depreciation on assets acquired through capital grants to contributed capital account	<u>7,082,471</u>	<u>6,566,669</u>
Net income to retained earnings	51,039,475	5,188,625
Retained earnings – beginning of year	271,500,728	266,312,103
Retained earnings – end of year	<u>\$ 322,540,203</u>	<u>271,500,728</u>

See accompanying notes to financial statements.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Statements of Cash Flows

Years Ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating activities:		
Income (loss) from operations	\$ 9,450,287	(4,250,518)
Adjustments to reconcile income (loss) from operating to net cash provided by operating activities:		
Depreciation and amortization	19,673,485	18,494,628
Bad debt expense	—	62,820
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(3,428,565)	360,506
Accounts payable	335,369	(26,684)
Unearned revenue	910,392	(954,803)
Due to State of Alaska General Fund	(7,628,237)	10,308,700
Net cash provided by operating activities	<u>19,312,731</u>	<u>23,994,649</u>
Capital and related financing activities:		
Payments of revenue bonds	(800,043)	(3,402,659)
Acquisition of property and equipment	(46,015,381)	(60,094,101)
Federal grants received	13,144,609	7,933,575
Interest paid on bonds	(11,957,595)	(12,698,253)
Proceeds from sale of bonds	—	25,000,000
Net cash used in capital and related financing activities	<u>(45,628,410)</u>	<u>(43,261,438)</u>
Investing activities:		
Proceeds from sales and maturities of investment securities	5,664,469	118,386,319
Investment income received	21,687,306	12,750,287
Purchase of investment securities	(18,058,907)	(121,880,713)
Change in restricted assets and investments	18,648,075	8,889,142
Net cash provided by investing activities	<u>27,940,943</u>	<u>18,145,035</u>
Net increase (decrease) in cash and equivalents	1,625,264	(1,121,754)
Cash and equivalents, beginning of year	<u>13,822,724</u>	<u>14,944,478</u>
Cash and equivalents, end of year	<u>\$ 15,447,988</u>	<u>13,822,724</u>
Non-cash transaction – during the year ended June 30, 2001, a building valued at \$16,000,000 was contributed by a corporate entity (note 14)		

See accompanying notes to financial statements.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2001 and 2000

(1) Organization

The accompanying financial statements include only the accounts of the State of Alaska International Airport System (System), an enterprise fund of the State of Alaska (State) created by Chapter 88 of the Session Laws of Alaska of 1961 to equip, finance, maintain, and operate the two international airports located at Anchorage and Fairbanks, Alaska. The airports are under the administration of the State of Alaska Department of Transportation and Public Facilities (DOT&PF). These financial statements are not intended to present complete financial activity of the State as a whole. The State's Comprehensive Annual Financial Report is available from the State's Division of Finance in the Department of Administration.

(2) Summary of Significant Accounting Policies

(a) *Governmental Accounting*

The accounting policies used in preparation of the financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governmental entities.

(b) *Basis of Accounting and Measurement Focus*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounts of the System are reported using the flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income. Fund equity consists of contributed capital and retained earnings.

The System uses the accrual basis of accounting, under which revenues are recognized when earned and expenses are recognized when incurred. Enterprise funds may elect to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, provided that such standards are not in conflict with standards issued by the Governmental Accounting Standards Board (GASB). The System has elected not to apply FASB pronouncements issued after November 30, 1989.

(c) *Annual Appropriated Budget*

The System has a legally adopted annual budget which is not required to be reported.

(d) *Management's Use of Estimates*

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2001 and 2000

(e) *Cash Equivalents*

For purposes of the statements of cash flows, the System considers all highly liquid investments (excluding restricted assets) with a maturity of three months or less, when purchased, to be cash equivalents.

(f) *Investments*

The System accounts for marketable securities following guidance established by Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this method, investments in debt securities and certain equity securities are carried at fair value and unrealized gains and losses are recorded in the statement of operations.

(g) *Accounts Receivable Allowance*

Management has provided an allowance based on amounts recorded at year-end which may be uncollectible.

(h) *Property and Equipment*

Property and equipment is carried at cost, except property originally received from the federal government which is recorded at fair market value at the date contributed. Major additions and improvements to property and equipment are capitalized. Depreciation is provided over estimated useful lives using the straight-line method. Repair and maintenance costs are expensed as incurred.

The cost and accumulated depreciation of assets retired or sold are removed from the accounts and any gain or loss is reflected in operations in the year of disposition.

(i) *Contributed Capital, Federal Aviation Administration*

Federal Aviation Administration (FAA) grants, which are restricted for capital acquisition, are reported as contributed capital in 2000 and as capital contributions in 2001 (note 8). Depreciation on the assets which were recorded as contributed capital, using the straight-line method over the estimated useful lives of the assets, is transferred to the contributed capital account. Receivables from the FAA include unreimbursed costs expended under approved grants.

The System incurs costs on projects that have not been approved for reimbursement by the FAA and amounts in excess of grant awards on certain approved projects. In addition to the \$12 million received from the FAA during 2001, approximately \$6,256,000 of FAA contributions recorded during the year ending June 30, 2001 relate to costs in excess of approved grant awards. Management believes these amounts will be reimbursed by the FAA upon their approval of the grant award or modification but are treated as claims until FAA approval is received.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2001 and 2000

(j) *Compensated Absences*

Routine annual leave is paid by the System as used. Upon an employee's termination, the accumulated leave is paid by the State's General Fund. Each pay period, an amount equal to a percentage of payroll based on an estimate of accumulated leave that will be paid during the current fiscal year for all State employees is budgeted and transferred to the General Fund to cover the estimated accumulated leave that will be paid during the current year. The amount transferred to the General Fund amounted to \$599,126 and \$544,133 during 2001 and 2000, respectively.

(k) *Bond Issuance Costs, Bond Discounts and Refunding Transactions*

Bond issuance costs and bond discounts are deferred and amortized over the life of the related debt, except in the case of refunding debt transactions where the amortization period is over the term of the refunding or refunded debt, whichever is shorter.

(l) *Capitalized Interest*

Interest expense net of income earned on construction bond proceeds are capitalized during construction on those capital projects paid for from the bond proceeds and are being amortized over the depreciable life of the related assets on a straight-line basis. Capitalized interest net of related investment income totaled (\$3,026,468) and \$1,310,354 during the years ending June 30, 2001 and 2000, respectively.

(m) *Due to/from State of Alaska General Fund*

The System uses the State of Alaska's central treasury for payments of current obligations. The obligations are settled monthly from the System's cash or investment accounts with the central treasury.

(n) *Leases*

The System leases substantially all terminal building space to airlines and concessionaires. All such leases have been treated as operating leases since ownership risks are retained by the System.

(o) *Environmental Costs*

The System expenses environmental assessment and clean-up costs as incurred. The costs are recoverable under the terms of the operating agreement (note 3) over twenty-five years.

(p) *Income Taxes*

The System qualifies for exemption from federal income taxes under current provisions of the Internal Revenue Code.

(q) *Reclassifications*

Certain reclassifications have been made to the 2000 balances to conform with the 2001 presentation.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2001 and 2000

(3) Airline Operating Agreement and Terminal Building Leases

The DOT&PF, in connection with operating the Anchorage International Airport and the Fairbanks International Airport (Airports), has executed airline operating agreements and terminal building leases (Agreements) with substantially all regularly scheduled airlines that utilize its facilities. The Agreements are effective July 1, 2001 for a five-year period, expiring on June 30, 2006.

The Agreements were mutually negotiated by DOT&PF and the airlines to establish procedures for periodic setting of rents and fees. The Agreements were consummated in order to set forth rights, privileges and obligations of the parties and to facilitate the development, promotion and improvements of air transportation. The rents and fees calculated, according to the Agreements, are airline terminal building rental rates, landing fees, international terminal docking fees, passenger loading bridge fees, passenger facility charges, and charges relating to federal inspection services. The Agreements also establish procedures for review and adjustment of airline rents and fees each fiscal year to ensure that revenues are sufficient to meet operations and maintenance expense, debt service requirements of the revenue bonds and other funding requirements established by the resolution authorizing issuance of the revenue bonds. Additionally, the agreements provide for the DOT&PF to adjust the aforementioned rents, fees and charges midway through the year if the projection of annual revenues made at that time is greater than 5% more or less than the anticipated System requirements for the year. The agreements also provide for the DOT&PF to immediately adjust landing fees if, at any time during the year, the System projects that annual revenues will not be sufficient to cover the total System revenue requirement.

The Agreements further provide for the payment of a fuel flowage fee of \$.02 per gallon for fuel purchased at the Airports. For users of the Airports who have not signed the Agreements, the fuel flowage fee is \$.023 per gallon.

The Agreements allow that revenues may be retained up to the following amounts:

- An amount necessary to satisfy debt service requirements due during the fiscal year on all outstanding bonds.
- Within the Supplemental Repair and Replacement Fund, an amount to maintain a repair and replacement allowance of \$1.5 million (which is subordinate to the bond resolution requirement of \$500,000 – note 6) beginning in fiscal year 2002. Each year subsequent to 2002, this amount will be adjusted to correspond with changes in the local consumer price index.
- Within the Maintenance and Operating Reserve Fund, an amount equal to one quarter of the annual budget for the operation and maintenance of the Airports.
- Within the Airport System Capital Project Fund, an amount in the equal to the amount authorized from rates and charges in the Annual Budget for each fiscal year for Capital Projects approved by Signatory Airlines, plus the amount authorized from rates and charges in

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2001 and 2000

the Annual Budget for that fiscal year for Capital Projects not requiring Signatory Airline approval.

- Within the Airport System Development Fund, an amount equal to \$6 million beginning in fiscal year 2002, to be adjusted each year subsequent to 2002 by changes noted in the local consumer price index.
- Within the Excess Revenue Fund, any funds in excess of these amounts at year end are to be deferred and recognized as revenue in the following year. If the System does not receive enough funds during the year to meet the minimum revenue requirements stipulated in the bond covenants, the System will recognize the minimum amount of revenue necessary to meet those requirements, as well as a receivable for the amount of the shortfall.

(4) Deposits and Investments

The System's investments are controlled by the State Treasury Division of the Department of Revenue (Treasury) pursuant to AS 37.10.070 and AS 37.10.071 which mandates that investments shall be made with the judgment and care exercised by an institutional investor of ordinary professional prudence, discretion and intelligence. Separate audited combined financial statements are available from Treasury which include investment policies for each fund.

The objectives of the State's investment policy are to maximize the preservation of principal, avoid residual risks, minimize credit and market risks, concentrate on large yet very marketable issues, and seek to achieve a relatively high but nonvolatile investment return within a fiscal year. The current investment policy limits the investments to nonresidual, fixed income obligations.

All deposits are insured or collateralized with securities held by the State or by its custodian in the State's name. All investments are insured or registered in the State's name and are held by the State or its custodian. This arrangement results in Category 1 safekeeping risk, the lowest safekeeping risk classification as defined by the Governmental Accounting Standard Board (GASB) Statements No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

Deposits and investments at June 30 consisted of the following:

	<u>2001</u>	<u>2000</u>
Deposits:		
Cash in banks and State Treasury	\$ <u>15,447,988</u>	<u>13,822,724</u>
Investments:		
U.S. Agency debt	\$ <u>85,334,654</u>	<u>72,940,216</u>

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2001 and 2000

(5) Restricted Assets and Investments

The System is required to maintain various restricted funds in compliance with the resolution authorizing issuance of its revenue bonds. The purpose of these funds are as follows:

- The repair and replacement account may be used (1) to eliminate deficiencies in the bond reserve accounts; or (2) for extraordinary repairs, renewals and betterments in the event surplus revenues are not available.
- The terminal redevelopment fund accounts for all bond proceeds, interest earned on bond proceeds and construction activity related to the System's terminal redevelopment project.
- The System is required by the Federal Aviation Administration to keep all unliquidated passenger facility charge revenues remitted to it on deposit in an interest bearing account. Passenger facility charges and interest earned on those charges collected by the System may only be used to pay allowable costs of approved projects.
- The revenue bond redemption fund is composed of bond interest and principal retirement accounts held by the bond trustee (Trustee) and may be used only for debt service. These reserve accounts were initially established from proceeds of revenue bonds and are to be subsequently maintained by transfers from the revenue fund in amounts sufficient to provide for annual debt service requirements. There is no bond reserve fund because at issuance of the Series A, B, C, and I bonds insurance was purchased in lieu of funding a reserve fund in accordance with amended bond resolutions.

Under the terms of the revenue bonds, all funds held by the Trustee in the revenue bond redemption fund must be held in time or demand deposits in any bank or trust company authorized to accept deposits of public funds (including the Trustee), direct obligations of the United States of America, bonds, notes or other indebtedness, deposit accounts, commercial paper, money market funds, or obligations the principal of and interest on which are guaranteed by the United States of America, maturing prior to the respective interest payment dates, maturity dates or minimum sinking fund payment dates on which such moneys are required to be paid out thereunder.

All deposits are insured or collateralized with securities held by the State or its custodian in the State's name. All investments are insured or registered in the State's name and are held by the State or its custodian. These arrangements provide for the lowest safekeeping risk classification as defined by GASB Statement No. 3.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2001 and 2000

Restricted assets and investments at June 30 consist of:

	<u>2001</u>	<u>2000</u>
Repair and replacement account:		
U.S. Treasury Bill	\$ <u>500,000</u>	<u>500,000</u>
Terminal redevelopment funds:		
Marketable debt securities	\$ 109,373,138	129,728,226
Cash in banks and state treasury	<u>34,012,365</u>	<u>39,560,534</u>
	\$ <u>143,385,503</u>	<u>169,288,760</u>
Passenger facility charge revenue fund:		
Cash in banks and state treasury	\$ 2,752,347	—
Due from General Fund	103,585	—
Accounts receivable	<u>909,579</u>	—
	\$ <u>3,765,511</u>	—
Revenue bond redemption fund:		
Bond interest:		
Daily money fund	\$ <u>1,996,816</u>	<u>1,032,145</u>
Bond principal:		
Daily money fund	\$ <u>3,660,000</u>	<u>1,135,000</u>

(6) Property and Equipment

Airport property was owned by the federal government prior to statehood and contributed to the State after that date. Subsequent additions to property and equipment have been funded by governmental contributions, bond proceeds and operating revenues.

The following is a summary of property and equipment at June 30:

		<u>Value</u>	
	<u>Life</u>	<u>2001</u>	<u>2000</u>
Land		\$ 27,655,820	25,501,840
Land improvements	5 to 40 years	323,120,224	314,492,016
Buildings	10 to 40 years	271,810,827	211,008,209
Equipment	5 to 10 years	<u>37,473,874</u>	<u>33,768,236</u>
		660,060,745	584,770,301
Accumulated depreciation and amortization		(285,011,592)	(265,338,107)
Construction in progress		<u>44,779,157</u>	<u>61,080,688</u>
		\$ <u>419,828,310</u>	<u>380,512,882</u>

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2001 and 2000

(7) Revenue Bonds Payable

During October 1999, the System issued \$25,000,000 of the Series C revenue bonds to finance the System's share of Terminal Redevelopment Project (note 12) costs.

The following is a summary of State of Alaska International Airport System Revenue Bonds payable at June 30:

	<u>2001</u>	<u>2000</u>
Series I, maturing in annual installments of increasing amounts through October 2, 2009, with a \$13,530,000 term bond due October 1, 2015; interest payable semi-annually at 3.9% to 5.5%	\$ 26,905,000	\$ 28,040,000
Series A, maturing in annual installments of increasing amounts through February 10, 2025; interest payable semi-annually at 4.0% to 5.125%	162,500,000	162,500,000
Series B, maturing in annual installments of increasing amounts through February 10, 2025; interest payable semi-annually at 4.0% to 5.125%	16,675,000	16,675,000
Series C, maturing in annual installments of increasing amounts through October 1, 2024; interest payable semi-annually at 4.85% to 6.22%	<u>25,000,000</u>	<u>25,000,000</u>
Total	231,080,000	232,215,000
Less unamortized bond issuance costs and discounts	<u>(4,104,257)</u>	<u>(4,439,214)</u>
	226,975,743	227,775,786
Less amount payable with restricted assets	<u>(3,660,000)</u>	<u>(1,135,000)</u>
Long-term portion	<u>\$ 223,315,743</u>	<u>226,640,786</u>

The following is a summary of debt payment requirements for each of the next five years and thereafter:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 3,660,000	11,557,172	15,217,172
2003	6,300,000	11,384,019	17,684,019
2004	6,580,000	11,110,913	17,690,913
2005	6,865,000	10,823,983	17,688,983
2006	7,155,000	10,523,036	17,678,036
Thereafter	<u>200,520,000</u>	<u>111,686,705</u>	<u>312,206,705</u>
	<u>\$ 231,080,000</u>	<u>167,085,828</u>	<u>398,165,828</u>

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2001 and 2000

Revenue bonds have been issued pursuant to bond resolutions which prescribe the use of accounts described at note 2 as well as the use of certain other practices. Among these is a requirement that net revenues available for debt service, as defined by the Resolution, must at least equal 1.25 times the sum of (1) annual debt services and (2) required deposits to the bond redemption fund. The revenue requirement was met for the years ended June 30, 2001 and 2000.

(8) Contributed Capital

During 2001, the System implemented GASB No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which changed the manner in which capital contributions are recorded by the System. Prior to 2001, capital contributions were shown as a separate component of fund equity and were amortized using the straight-line basis over the useful life of the respective assets purchased with those grant funds. Beginning in 2001, federal grants received by the System are shown as capital contributions, as a component of income, and are added to the System's unreserved fund balance. Capital contributions received by the System in prior years will continue to be shown separately within fund equity; and will continue to be amortized throughout the remainder of their useful lives. Changes to contributions—as a component of equity—for the years ended June 30, 2001 and 2000, were as follows:

	<u>2001</u>	<u>2000</u>
Balance July 1	\$ 121,497,548	123,814,435
Contributed capital – federal grants	—	4,249,782
Amortization of contributed assets	<u>(7,082,471)</u>	<u>(6,566,669)</u>
Balance June 30	<u>\$ 114,415,077</u>	<u>121,497,548</u>

During the year ended June 30, 2001, the System received approximately \$12 million in contributions from the FAA.

(9) Cost Allocated from the Department of Transportation and Public Facilities (DOT&PF)

DOT&PF provides administrative and technical services benefiting all of Alaska's airports and aircraft bases. Related costs are allocated based upon budgetary estimates of the pro rata portion which should be borne by the various facilities as set forth in the annual appropriation and budget document of the State. Costs allocated to the System and included in operating expenses for the years ended June 30, 2001 and 2000 amounted to \$1,041,100 and \$1,007,800 respectively. Capital project management services are performed by DOT&PF personnel and are capitalized to property and equipment. The indirect costs allocated to the System and capitalized in construction in progress amounted to \$902,753 and \$740,996 during the years ending June 30, 2001 and 2000, respectively. The increase in indirect costs for the year ending June 30, 2001 are the result of a greater amount of construction activity, when compared to 2000, as the Terminal Redevelopment Project continues.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2001 and 2000

(10) Retirement Plan

The System follows the provisions of the GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. Specific information related to the System, its employees and contributions is commingled with other State of Alaska information by PERS, which treats the State of Alaska as one employer.

(a) Plan Description

The System contributes to the State of Alaska Public Employees; Retirement System (PERS), a defined benefit, agent multiple-employer public employee retirement system which was established and is administered by the State of Alaska to provide pension, postemployment healthcare, death and disability benefits to eligible employees. All full-time System employees are eligible to participate in PERS. Benefit and contribution provisions are established by State of Alaska law and may be amended only by the State of Alaska Legislature.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99611-0203 or by calling (907) 465-4460.

(b) Funding Policy and Annual Pension Cost

Employee contribution rates are 6.75% for employees, as required by State of Alaska statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The System's rates were 8.03% and 8.13% of covered salary expenses in the years ending June 30, 2001 and 2000, respectively.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2001 and 2000

The System's annual pension cost for the current year and the related information is as follows:

	<u>Pension</u>	<u>Postemployment healthcare</u>
Contribution rates:		
Employee	4.92%	1.83%
Employer	5.85%	2.18%
System annual covered payroll	\$20,225,934	\$20,225,934
Annual pension cost	\$2,192,491	\$817,128
Contributions made		
Employee	\$995,116	\$370,135
Employer	\$1,197,375	\$446,993
Actuarial valuation date	June 30, 1999	Same
Actuarial cost method	Projected unit credit	Same
Amortization method	Level dollar, open	Same
Amortization period	Rolling 25 years	Same
Asset valuation method	5-year smoothed market	Same
Actuarial assumptions:		
Inflation rate	4.0%	Same
Investment return	8.25%	Same
Projected salary increase:		
Inflation	4.0%	N/A
Productivity and merit	1.5%	N/A
Health cost trend	N/A	7.5%

In the current year, the System determined, in accordance with provisions of GASB Statement No. 27, that no pension liability (asset) existed to PERS and there was no previously reported liability (asset) to PERS.

Required supplementary information – Schedule of Funding Progress for PERS (in thousands) for the State of Alaska:

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Excess of assets over AAL (a) – (b)</u>	<u>Funded ratio (a) / (b)</u>	<u>Covered payroll (c)</u>	<u>Excess as a percentage of covered payroll ((a) – (b)) / (c)</u>
Pension:						
June 30, 1999	\$ 2,725,541	2,610,855	114,686	104%	\$ 640,906	18%
June 30, 1998	2,589,491	2,538,706	50,785	102%	622,044	8%
June 30, 1997	2,373,122	2,281,287	91,835	104%	617,556	15%
Postemployment health:						
June 30, 1999	1,104,905	1,058,412	46,493	104%	640,906	7%
June 30, 1998	1,032,722	1,012,469	20,253	102%	622,044	3%
June 30, 1997	884,487	850,259	34,228	104%	617,556	6%

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2001 and 2000

Ten-year historical trend information showing PERS progress in accumulating sufficient assets to pay benefits when due is presented in PERS' June 30, 1999 comprehensive annual report.

(11) Rental Income under Operating Leases

The System's leasing operations consist of leasing land, buildings and terminal space to airlines and other tenants.

The following is a schedule of minimum future rental income payments under noncancelable operating leases for each year for the next five years as of June 30, 2001:

<u>Year ending June 30:</u>	
2002	\$ 5,120,012
2003	2,877,099
2004	2,892,933
2005	2,902,865
2006	1,225,942

These amounts do not include contingent fees, which may be received under certain leases that involve a concession fee based upon gross receipts. Contingent fees amounted to \$2,170,269 in 2001 and \$2,306,197 in 2000. The above schedule includes minimum guaranteed rentals only to the extent of the remaining term of noncancelable leases.

(12) Terminal Redevelopment Project

In 1999, the Alaska State Legislature approved \$204,175,000 in bond authorization for the Anchorage Internal Airport Terminal Redevelopment Project. The total estimated budget for the project is \$230,000,000. Additional funding will be obtained from other sources including the Federal Aviation Administration and the Federal Highway Administration. Contracts entered into for this projected totaled approximately \$122,025,098 as of June 30, 2001 and \$98,544,000 as of June 30, 2000. The System has ongoing contract disputes related to construction activity that could result in additional payments in excess of \$3.5 million. Management believes that some or all of the disputes may be covered by professional liability insurance. Any amount not covered by insurance may be capitalized as construction in progress.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Notes to Financial Statements

June 30, 2001 and 2000

(13) Passenger Facility Charges

Under Part 158 of the Code of Federal Regulations, the Federal Aviation Administration (FAA) granted public agencies controlling commercial service airports the authority to impose passenger facility charges (PFCs), ranging from \$1 to \$4.50 per enplaned passenger, to be used towards the cost of certain airport projects. In October 2000, the System began collecting passenger facility charges of \$3 per passenger, of which each airline retains approximately \$.08. Expenditures of PFC revenues are limited to eligible costs of projects approved in advance by the FAA.

During the year ended June 30, 2001, the System earned approximately \$3.8 million in PFC revenues, of which \$92,960 had been spent on approved projects as of that date.

(14) Corporate Contributions

During 2001, the System received title to a building and other improvements from a tenant as part of a nonexchange transaction valued at \$16,000,000. As part of this agreement, the System agreed to lease the building back to the tenant for \$1 per month, through September 2048. The tenant is responsible for all liability, maintenance and repair relating to the building throughout the remainder of the lease term.

(15) Contingencies

In the normal course of its activities, the System is involved in the defense of various claims and litigation. There were no pending or threatened litigation, claims, assessments or governmental investigations including environmental clean-up actions against the System as of June 30, 2001 and 2000 that would have a material adverse effect on the financial position, results of operations or liquidity of the System.

The System's leases with its tenants include provisions requiring the tenant to indemnify the System for any damage to property or losses to the System as a result of the tenant's operations. Accordingly, in the opinion of management, any tenant environmental remediation plans and final disposition are not expected to have a material adverse effect on the financial position, results of operations or liquidity of the System.

The System participates in the State of Alaska's risk management and self-insurance program for property, casualty and workers' compensation and specialty coverages. The Division of Risk Management (Risk Management) acts as the insurance carrier for each State agency, funding all sudden and accidental property and casualty claims. Risk Management allocates annual premiums to each State agency through a cost of risk premium allocation system. Risk Management has purchased excess insurance coverage to maintain the self-insurance risk at an acceptable level for the State.

**STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM**
(An Enterprise Fund of the State of Alaska)

Combined Schedules of Operations

Years Ended June 30, 2001 and 2000

	2001			2000		
	Anchorage	Fairbanks	Total	Anchorage	Fairbanks	Total
Operating revenues:						
Airfield operations:						
Landing fees	\$ 24,038,814	2,133,916	26,172,730	13,346,528	1,198,017	14,544,545
Fuel flowage fees	15,207,845	1,073,935	16,281,780	14,981,771	1,032,572	16,014,343
Aircraft docking fees	1,022,499	42,921	1,065,420	1,141,614	45,416	1,187,030
Aircraft parking fees	574,565	149,984	724,549	597,348	160,031	757,379
Federal inspection fees	456,449	45,256	501,705	469,259	45,170	514,429
Concession fees	7,622,123	862,599	8,484,722	7,684,389	715,993	8,400,382
Terminal rents	6,611,621	1,706,411	8,318,032	5,957,250	1,573,743	7,530,993
Vehicle parking fees	4,756,163	548,011	5,304,174	4,308,620	422,863	4,731,483
Passenger Facility Charges	3,177,227	632,275	3,809,502	—	—	—
Land rental fees	2,611,446	336,846	2,948,292	2,429,821	358,607	2,788,428
Other	252,203	58,676	310,879	185,977	61,597	247,574
Total operating revenues	66,330,955	7,590,830	73,921,785	51,102,577	5,614,009	56,716,586
Operating expenses:						
Building maintenance	9,514,693	2,335,472	11,850,165	8,873,450	2,126,454	10,999,904
Field and equipment maintenance	8,438,039	2,628,474	11,066,513	7,773,967	2,461,111	10,235,078
Safety	5,326,101	2,355,874	7,681,975	5,335,404	2,308,580	7,643,984
Administration	5,192,484	1,498,480	6,690,964	4,967,863	1,502,757	6,470,620
Vehicle parking and curbside services	2,050,083	—	2,050,083	1,864,489	—	1,864,489
Operations	1,712,332	849,552	2,561,884	1,384,344	626,476	2,010,820
Environmental expenses	1,857,872	318,413	2,176,285	1,740,590	724,483	2,465,073
Risk management	557,104	163,040	720,144	596,016	123,672	719,688
Bad debt	—	—	—	56,673	6,147	62,820
Total operating expenses	34,648,708	10,149,305	44,798,013	32,592,796	9,879,680	42,472,476
Operating income (loss) before depreciation and amortization expense	31,682,247	(2,558,475)	29,123,772	18,509,781	(4,265,671)	14,244,110
Depreciation and amortization expense:						
On assets acquired with Airport revenue funds	9,874,271	2,716,743	12,591,014	9,301,618	2,626,341	11,927,959
On assets acquired with capital grants	5,593,252	1,489,219	7,082,471	5,138,372	1,428,297	6,566,669
	15,467,523	4,205,962	19,673,485	14,439,990	4,054,638	18,494,628
Income (loss) from operations	16,214,724	(6,764,437)	9,450,287	4,069,791	(8,320,309)	(4,250,518)
Nonoperating income (expense):						
Interest income	8,234,583	8,265	8,242,848	4,427,079	—	4,427,079
Interest expense	(1,759,990)	—	(1,759,990)	(1,554,605)	—	(1,554,605)
Reimbursable services income	1,743,696	—	1,743,696	—	—	—
Reimbursable services expense	(1,743,696)	—	(1,743,696)	—	—	—
	6,474,593	8,265	6,482,858	2,872,474	—	2,872,474
Contributed capital – corporate	16,000,000	—	16,000,000	—	—	—
Contributed capital – Federal Aviation Administration	12,023,859	—	12,023,859	—	—	—
Net income (loss)	50,713,176	(6,756,172)	43,957,004	6,942,265	(8,320,309)	(1,378,044)
Transfer of depreciation on assets acquired through capital grants to contributed capital account	5,593,253	1,489,218	7,082,471	5,138,372	1,428,297	6,566,669
Income (loss) to retained earnings	\$ 56,306,429	(5,266,954)	51,039,475	12,080,637	(6,892,012)	5,188,625

See accompanying independent auditors' report.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)
Schedule of Changes in Reserved Retained Earnings
Years Ended June 30, 2001 and 2000

	Terminal Redevelopment Reserve	Repair and Replacements Reserve	Passenger Facility Charges	Bond Redemption Reserve		Combined
				Bond Interest	Bond Principal	
Reserves at June 30, 1999	\$ 3,023,311	500,000	—	102,647	—	3,625,958
Transfers from operating account	—	—	—	13,093,054	5,059,305	18,152,359
Investment earnings	3,325,345	—	—	37,805	104,019	3,467,169
Bond interest payments	—	—	—	(13,114,181)	—	(13,114,181)
Bond principal payments	—	—	—	—	(2,908,004)	(2,908,004)
Change in bond principal and interest payable	—	—	—	(119,325)	(2,255,320)	(2,374,645)
Reserves at June 30, 2000	6,348,656	500,000	—	—	—	6,848,656
Investment earnings	13,359,908	—	48,969	—	—	13,408,877
Bond interest expense	(10,333,440)	—	—	—	—	(10,333,440)
Cumulative effect of interest expense in excess of earnings on bond proceeds	(7,581,075)	—	—	—	—	(7,581,075)
Passenger facility charges collected	—	—	3,809,502	—	—	3,809,502
Passenger facility charges expensed	—	—	(92,960)	—	—	(92,960)
Reserves at June 30, 2001	\$ 1,794,049	500,000	3,765,511	—	—	6,059,560

See accompanying independent auditors' report.



701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

**Independent Auditors' Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska

We have audited the financial statements of the State of Alaska International Airport System (An Enterprise Fund of the State of Alaska) (System) for the years ended June 30, 2001 and 2000 and have issued our report thereon dated October 5, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.





State of Alaska Department of Transportation
and Public Facilities

This report is intended solely for the information and use of the System and the State of Alaska Department of Transportation and Public Facilities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 5, 2001

**DEBT COMPLIANCE SCHEDULES
AND INDEPENDENT AUDITORS' REPORTS**



701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

**Independent Auditors' Report on the Schedule of
Net Revenues in Excess of Net Revenues Required**

State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the State of Alaska International Airport System (An Enterprise Fund of the State of Alaska) for the year ended June 30, 2001, and have issued our report thereon dated October 5, 2001. We have also audited the accompanying schedule of net revenues in excess of net revenues required of the State of Alaska International Airport System for the year ended June 30, 2001. This schedule is the responsibility of the State of Alaska International Airport System's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of excess net revenues over net revenues required is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such schedule presents fairly, in all material respects, the excess of net revenues as defined in Section 1.01 of Resolution 99-01 of the State Bond Committee of the State of Alaska over net revenues required as defined in Section 4.10 of Resolution 99-01 of the State Bond Committee of the State of Alaska for the year ended June 30, 2001, in accordance with the provisions of the Resolution 99-01 of the State Bond Committee of the State of Alaska.

This report is intended solely for the information and use of the State of Alaska Department of Transportation and Public Facilities, the State of Alaska International Airport System and the trustees for the State of Alaska International Airport System Revenue Bond Series I, A, B and C, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 5, 2001



STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Schedules of Net Revenues in Excess of Net Revenues Required
Year Ended June 30, 2001

	<u>2001</u>	<u>2000</u>
Net revenues, as defined in Section 1.01 of Resolution 99-01 of the State Bond Committee of the State of Alaska:		
Revenues:		
Operating revenues	\$ 73,921,785	56,716,586
Investment income	8,242,848	4,629,253
Less investment income earned on Construction Fund	<u>—</u>	<u>—</u>
Total revenues	82,164,633	61,345,839
Maintenance and Operation Costs	<u>44,798,013</u>	<u>42,472,476</u>
Net revenues	<u>37,366,620</u>	<u>18,873,363</u>
Net revenues required, as defined in section 4.10 of Resolution 99-01 and Resolution 99-07 of the State Bond Committee of the State of Alaska:		
Debt service on series H and I bonds during fiscal year	2,613,260	4,788,027
Debt service on series A, B and C bonds during fiscal year	12,603,912	—
Deposits required to be made in the Bond Reserve Fund	<u>—</u>	<u>—</u>
	15,217,172	4,788,027
Minimum revenue requirement factor	<u>1.25</u>	<u>1.25</u>
Net revenues required	<u>19,021,465</u>	<u>5,985,034</u>
Net revenues in excess of net revenues required	<u>\$ 18,345,155</u>	<u>12,888,329</u>

